Financing the Community Supported Farm

Ways For Farms to Acquire Capital for Land Access and Start-up

Ben Waterman
UVM Extension New Farmer Project
ben.waterman@uvm.edu, (802) 656-9142
Community Capital

Courtesy of Cornelia Flora, Iowa State University, Department of Sociology
Community Financing

- Financial capital exchange directly between community members and small businesses within their communities
- How are the other “community capitals” supported as a result of this exchange?
Community Supported Farm

- A farm whose financial, environmental, social support comes from surrounding communities
Guide to Financing the Community Supported Farm

- Securities regulations to consider
- Owner Financed Sales and Land Contracts
- Considerations for dealing with farmland investors
- Share Lease
- Promissory note
- Multi year CSAs (Pre-buys)
- Equity financing
- Revenue-based financing
Guide to Financing the Community Supported Farm


- Each chapter is a downloadable chapter
Partnering Farms
Already, New Edition Needed!

- Crowdfunding
- Crowdfunding
- Crowdfunding
- Federal and State Programs including the Healthy Food Financing Initiative, New Markets Tax Credits, Community Development Block Grants...
Legal Considerations

• Investment? Pre-Purchase? Donation or Capital Contribution?
• Solicitation
• Disclosure and Documentation
Tax Considerations

• Gifts are very distinct from loans
• “Zero-interest” loan *might* be an oxymoron. In some cases the IRS will impute interest if no interest is stated in the promissory note
• State tax treatment might be different from federal tax treatment
Advisory Team

Complementary financing can be simple, but legal, accounting and business ramifications can be less known. Having an advisory team is often highly recommended. Team members include:

• Farm family members
• Accountant
• Attorney
• Independent business counsel
Land Acquisition

- Owner Financed Sales
- Land Contracts
- Share Leases
- Partnering With Farmland Investors
Owner Financed Sales

• ADVANTAGES:
  – Farmer can avoid high costs in set-up
  – Credit history, high credit score, high downpayment not always needed
  – Owner-seller earns interest income
  – Farmer gains full legal title
  – Flexibility can be incorporated
Owner Financed Sale

• DISADVANTAGES
  – Foreclosure still a danger
  – Interest rates might not be lower than in a conventional mortgage deal
  – Owner financing often not sufficient
  – Legal costs might be higher
Land Contract

• ADVANTAGES
  – Full legal title not transferred until all payments are made
  – Full equitable title is assumed, giving farmer essentially most ownership rights
  – Owner-seller has more assurance
  – FSA now guarantees land contracts
Land Contract

– Disadvantages

• Eviction a danger, farmer-buyer might not be entitled to legal protections of foreclosure process
• Interest Rates might not be lower than in a conventional mortgage
• It might be tough to leverage the land contract for further financing
Owner Financed Sales and Land Contracts

• Key Considerations
  – Who will pay property taxes?
  – What is the process for implementing a permanent building improvement, and what happens in default?
  – What cash flow from on and off-farm income will be available to service the debt?
  – What are the tax implications of the contract or sale?
Share Lease

ADVANTAGES

– Allows farmer to put “sweat equity” to good use
– Simple legal arrangement compared to a legal partnership
– Allows farmer to build equity, good example is “sharemilking” where farmer-tenant owns bred stock
– Can reduce farmer’s risk in unfavorable market conditions
Share Lease

• Disadvantages
  – Accounting and valuing contributions can be time-consuming and complicated
  – Land acquisition might still be out of the question
  – Farmer does not reap full benefits of sales during periods of favorable market conditions
  – Tax consequences can be blurry for the landowner depending on degree of “material participation”
Share Leases

• Planning resources:


  • A Sharemilking agreement is specific to dairying, and is a share lease that is focused on sharing dairy infrastructure and building equity for the tenant farmer through partial ownership of the herd or other assets. The University of Missouri Pasture-based Dairy Program has comprehensive resources on share-milking agreements for livestock operations. They are available online at: [http://agebb.missouri.edu/dairy/grazing/sharemilking/](http://agebb.missouri.edu/dairy/grazing/sharemilking/). Accessed online 2/15/2012.

Farmland Investors

- What motivates the investor?
- What motivates the farmer?
Farmland Investor Typology

Focused on:

• Short or medium term financial gain
• Capital appreciation, long term land holding
• Socially motivated, supportive of new farmer needs
Land Buyback Model

• HUGE question on farmers’ minds- is land purchase an option?
• If so, legal option can be used.
• “Lease-to-own” arrangements are a lot more tenuous if no purchase trigger is specified.
• Landowner/investor often hopes to retain a small percentage of land, but is willing to “re-sell” the bulk of the farm to the farmer once the farmer is able to purchase.
Closing Remarks

- Creative financing can be simple, allowing all parties to cut down on paperwork, set-up costs and hassle BUT an advisory team should be in place, including an attorney, tax adviser, and independent business counsel

- For now public solicitation of investment is prohibited in most cases, and community financing often happens on a private level. Community capitals are built as a result.